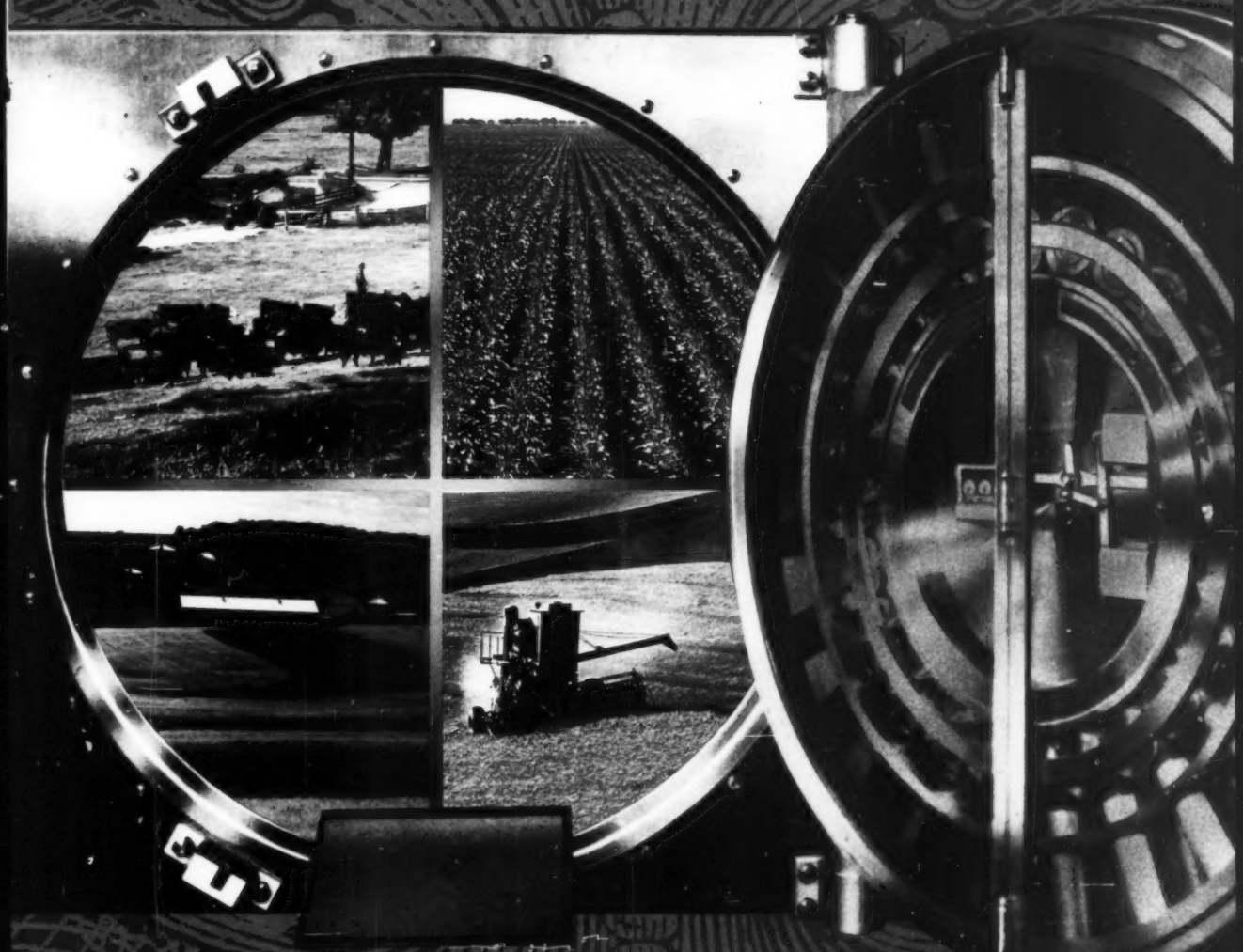
# FARMLINE

United States Department of Agriculture

Economic Research Service

Volume VIII
Number 10
October 1987



## Lender Holdings: What Effect on Farmland Values?

Where the Food Dollar Goes page 8

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*FARMLINE* is published 11 times a year by USDA's Economic Research Service. Send questions, requests, and editorial comments to *FARMLINE*, Room 228-USDA, 1301 New York Avenue NW, Washington, DC 20005-4789.

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# PERSPECTIVES

**THE EXPORT PICTURE CONTINUES TO BRIGHTEN.** The latest estimates peg U.S. agricultural exports at around 129 million tons and $28 billion for fiscal 1987, which ended September 30. That's $500 million more than was forecast 3 months earlier and a $1.7-billion jump from the actual exports of fiscal 1986.

**Additional increases in both volume and value** are likely for fiscal 1988. The United States is expected to hold on to its recent gains in world market share while world trade continues to increase during the next 12 months, says USDA economist Steve MacDonald. Exports of high-value products should continue to expand, and prices are likely to improve for bulk exports as well.

**Nearly all of the expected 18% increase** in export volume for fiscal 1987 was accounted for by grains. The reasons: lower U.S. prices, reduced competitor supplies, and the Export Enhancement Program. The total value of grain exports has fallen, however, because of lower prices. The 1987 gain in value of all exports is the result of increases in livestock, cotton, and horticultural products. High-value exports have been boosted by the weaker dollar plus promotion efforts under the Targeted Export Assistance Program, MacDonald points out.

**On the import side,** farm products entering this country were estimated at $20.5 billion for fiscal 1987, down around $400 million from the 1986 record. An expected 1987 trade balance of $7.5 billion would be $2 billion higher than a year earlier but less than a third of the amount registered 5 years earlier.

**Highlights for major export commodities:**

**Wheat and flour:** The Export Enhancement Program has allowed U.S. exporters to compete more effectively, MacDonald says. Volume was estimated at more than 30 million tons for fiscal 1987, up from 26.6 million the previous year. However, lower prices have meant a drop in value, from $3.5 billion in 1986 to $3.1 billion in 1987, despite the increase in volume. Export Enhancement Program sales included 4 million tons to the Soviet Union and 1 million tons to China.

**Coarse grains:** The 1987 forecast of $3.8 billion in value was unchanged from 1986, while volume was expected to exceed 47 million tons, a rise of more than 30% from the previous year. The demand for U.S. corn has strengthened, because of decreased supplies from such exporters as Argentina, China, and Thailand. Also, there has been a shift to U.S. corn by several major importers, including Japan and South Korea.

**Oilseeds:** Sales of soybeans and meal have been larger than expected. Exports of U.S. oilseeds and products for fiscal 1987 should be up around a million tons from 1986 to nearly 28 million tons. Value, however, was expected to fall about 5% in 1987 from the $6.5 billion level in 1986.

**Cotton:** Exports for fiscal 1987 were estimated at $1.7 billion and 1.5 million tons, up from $700 million and 520,000 tons the year before. The tripling of volume resulted from competitive U.S. prices, reduced foreign availability, and strong foreign import demand, MacDonald says.

**Livestock, dairy, and poultry:** Value for fiscal 1987 was forecast at $4.9 billion, up from $4.4 billion in 1986. Beef sales to Canada, Brazil and Japan increased. Also, exports of poultry products were stronger because of the EEP and lower Japanese tariffs.

**Both Value and Volume of U.S. Agricultural Exports Were Up in Fiscal 1987, for the First Time in Several Years**

| | Fiscal years | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 Forecast* |
| Value, in billions of dollars | 40.5 | 43.8 | 39.1 | 34.8 | 38.0 | 31.2 | 26.3 | 28.0 |
| Volume, in million metric tons | 164.0 | 162.3 | 157.9 | 144.8 | 143.6 | 125.7 | 109.5 | 129.0 |

*As of August 1987.

# FARMLINE

*AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT*
*Practical economic intelligence from USDA's Economic Research Service*

## *FEATURES*

**Lender-Held Acreage Clouds Farmland Value Outlook** *by Juliana King* 4

The amount of U.S. farmland acquired by lenders has increased substantially during the 1980's. Farmers and lenders alike are concerned that these holdings could hamper the recovery in farmland values. But the lender-held land is not likely to be dumped on the market, economists say.

**Many Farms Flourish in the City's Shadow** *by Wendy Pinchas* 6

Successful U.S. farmers include many who till the soil on the fringes of the nation's urban areas. This type of farming has its own special requirements and challenges. The rewards can be substantial, however, for those who have developed survival skills.

**Processing Costs More Than Growing Our Food** *by Doug Martinez* 8

A smaller portion of the American consumer's food dollar goes for farm value than for processing the food. Total food marketing costs in 1986 came to 70 cents of each dollar spent in foodstores. And the portion going to the nation's farmers has continued to fall.

**Olive Oil Stockpiles Illustrate Europe's Farm Dilemma** *by Doug Martinez* 11

Olive oil overproduction has become a European Community concern since three southern-tier countries became members. Even recent production decreases have done little to reduce stockpiles. The small but slippery dilemma illustrates the difficulties the EC faces in resolving its larger surplus problems.

## *DEPARTMENTS*

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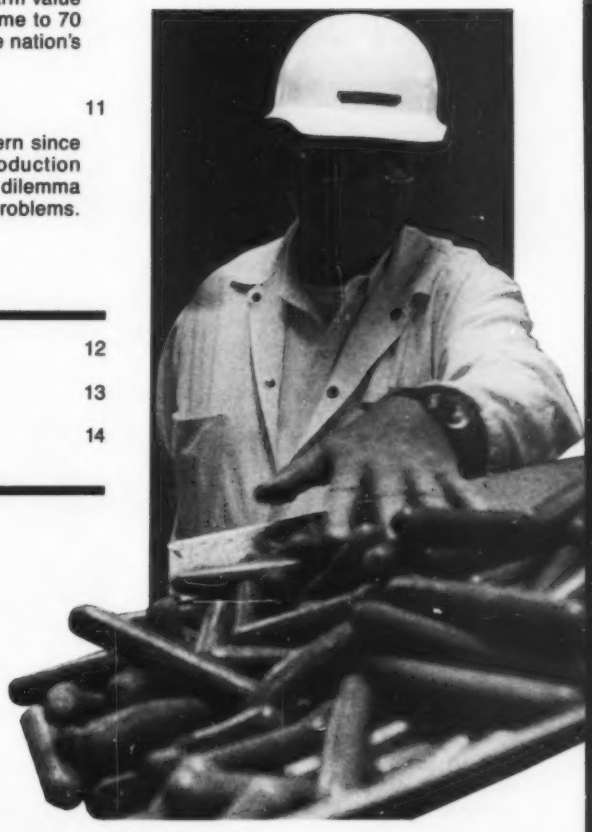
**Farmline Trends:** Monthly Price Monitor; Harvest Outlook 14



# Lender-Held Acreage Clouds Farmland Value Outlook

Many farmers see a potential obstacle along the road to recovery in farmland values: the possibility of more land being released into today's fragile farm real estate market.

This concern is shared by lenders whose large acreage holdings loom over the market. They acquired the farmland through voluntary liquidations, debt settlements, and foreclosures. They know that the lower these asset values fall, the less they will recover of their original loans.

Many lenders are setting minimum-bid prices on their acquisitions. Some are temporarily leasing the land to operators. Still others are hiring managers to keep the land in production. Generally, the lenders would prefer to stick to the business of lending, and leave land ownership in the hands of farmers. However, they realize that their holdings—still growing but at a much slower rate—are large enough to affect some local land markets.

How much farmland is actually held by agricultural lenders? How likely is it to precipitate another tailspin in farm real estate values? These are difficult questions, and the answers are tentative.

Analysts with USDA's Economic Research Service report that lenders hold around 8 million acres of farmland. Given the more than 1 billion acres of such land throughout the country, holdings of 8 million acres are not likely to have a dominating influence on U.S. farmland values, says ERS economist Jerry Stam.

What this means is that, barring any dumping of land on the market or further twists to the agricultural financial situation, the lender acquisitions are not expected to depress farmland values nationwide.

### The Threat of "For Sale" Signs

Yet Stam and his colleagues, economists Steven Koenig and Greg Gajewski, also acknowledge that the mere possibility of a sudden sprouting of "For Sale" signs poses a potential threat to farmland values in some parts of the country.

"Concern, and even alarm, have been expressed that the sizable amount of lender-acquired farm property has become a significant factor, placing a lid on farmland values in a relatively inactive market," Stam says.

*Lenders would prefer to stick to lending, and leave land ownership to the farmers.*

That is the picture that confronts some producers, rural communities, and lenders themselves. If another downturn in prices were to occur, it would further erode the collateral backing many loans. More farmers would be pushed toward financial disaster, and the loan portfolios of many banks would deteriorate. More banks could fail under the additional strain.

"The problem of farm lenders mounted in the mid-1980's as the financial difficulties of the farm sector increasingly passed to them," says Stam. Of the $92 billion of farm real estate debt held on December 31, 1986, $68 billion was owed to commercial banks, life insurance companies, the Farm Credit System, and the Farmers Home Administration.

These lenders experienced rising levels of loan losses and problem loans since 1982. Their earnings correspondingly fell. Indeed, more than 220 banks specializing in farm loans have failed since 1981.

### Comparisons With the Depression

Lender-held land during the Great Depression reached 28 million acres by 1937—20 million more than today's lenders hold. However, lender acquisitions began to build in the 1920's and accumulated over a much longer period than they have during this decade.

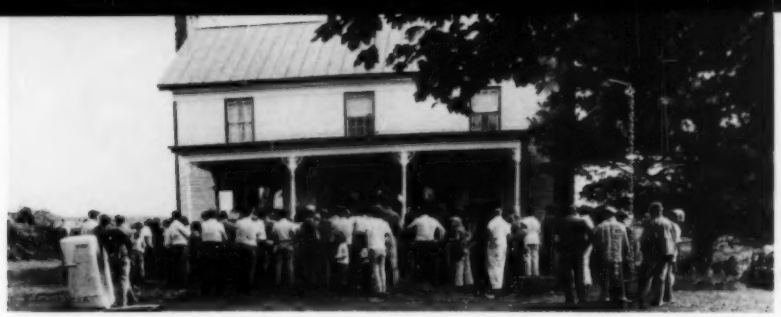
As of March 31, U.S. agricultural lenders held an estimated 8 million acres valued at $4 billion, the ERS analyst says. This represents a quarter of all farmland acres (20 percent of value) that change hands annually.

The Farm Credit System (FCS) holds the largest share. At the end of the first quarter of this year, FCS held 34.7 percent of all the lender-acquired farmland. Life insurance

**The Omaha, Sacramento, and St. Paul Districts Held the Most Farmland, by Value, as of the First Quarter of 1987**

| District | Farm Credit System | Commercial banks | FmHA | Life insurance companies | Total |
|---|---|---|---|---|---|
| | | | *$ millions* | | |
| Springfield[1] | 5.6 | .9 | 26.9 | 4.9 | 38.3 |
| Baltimore[2] | 5.2 | 2.7 | 12.3 | 12.0 | 32.1 |
| Columbia[3] | 50.2 | 8.6 | 59.1 | 110.8 | 228.6 |
| Louisville[4] | 52.7 | 26.1 | 57.5 | 111.9 | 249.2 |
| Jackson[5] | 103.2 | 22.2 | 78.0 | 68.6 | 272.1 |
| St. Louis[6] | 91.7 | 63.5 | 133.1 | 173.8 | 462.0 |
| St. Paul[7] | 271.1 | 51.9 | 111.2 | 79.5 | 513.8 |
| Omaha[8] | 162.7 | 102.3 | 100.2 | 221.4 | 586.6 |
| Wichita[9] | 97.2 | 61.9 | 114.6 | 110.9 | 384.5 |
| Texas[10] | 48.0 | 44.6 | 14.8 | 107.7 | 215.1 |
| Sacramento[11] | 73.0 | 11.2 | 65.5 | 284.5 | 525.9 |
| Spokane[12] | 147.8 | 18.0 | 75.5 | 156.0 | 305.8 |
| U.S. | 1,108.3 | 413.9 | 848.7 | 1,442.0 | 3,813.0 |

[1]CT, MA, ME, NH, NJ, NY, RI, VT. [2]DE, MD, PA, VA, WV. [3]FL, GA, NC, SC. [4]IN, KY, OH, TN. [5]AL, LA, MS. [6]AR, IL, MO. [7]MI, MN, ND, WI. [8]IA, NE, SD, WY. [9]CO, KS, NM, OK. [10]TX. [11]AZ, CA, HI, NV, UT. [12]AK, ID, MT, OR, WA.



companies held 30.4 percent, and the FmHA 19.8 percent.

Although the 8 million acres amount to less than 1 percent of U.S. farmland, the lender holdings do have an effect. As Stam explains, "The market for farmland is notoriously thin. Only a small percentage of U.S. agricultural land changes hands each year, even during the most prosperous years."

Evidence suggests an annual turnover rate of between 2 and 5 percent for U.S. farmland. During the July 1985-1986 period, ERS estimated that slightly more than 3 percent was transferred, well within the historical rule of thumb.

If all the acreage held by lenders went on the market, it would add an amount roughly equal to 24 percent of all land in farms sold each year. While highly unlikely, such an aggressive marketing of lender holdings could affect local land prices, especially cropland prices, says Stam.

The greatest concentration of acquired land is in the American heartland, he says. According to ERS calculations, more than 62 percent of all the acquired acreage is in 15 states—Arkansas, Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Wisconsin, and Wyoming.

In these vulnerable areas, it is unlikely that a rush of farmland sales will occur. "It is important to remember that only a small fraction of these assets will be put on the market at any one time," the economists explain. Lenders will not jeopardize the value of their holdings by unloading them in a single year and flooding the market.

**Managing the Holdings**

Nonetheless, the large holdings present management problems for commercial banks, insurance companies, FCS, and FmHA. The lenders are exploring ways to ease the burden of these holdings. Commercial banks, which according to ERS estimates held 1.2 million acres of farmland at the end of 1986, are limited by law as to how long they may hold a property. Hence, they are trying to sell many of their acquisitions fairly quickly.

## Land Risked (and Lost) in Borrowing Spree

One cause of the farm crisis was the way farmland was used as collateral to finance much of the agricultural expansion of the 1970's, Economic Research Service economists say.

Asset values were rising during that time, and most people expected them to continue climbing. Farmers were optimistic about the growth potential for exports. In all, the outlook for the sector looked bright. Banks had plenty of money, and farmers were willing to borrow it. However, the borrowing spree went too far.

ERS analyst Greg Gajewski says that the financial position of many producers faltered when prospects for higher farm income, depressed by huge surpluses and declining trade, leveled off. Their expectations of continually increasing exports driving ever-rising farm income and asset values were not met, he says. In many cases, farmers were unable to pay and lenders were unable to recover loans issued on the assumption that incomes and asset values would continue climbing.

"Life insurance companies are perhaps the only lenders that, as a group, appear willing to 'wait and see' how the real estate market develops before taking action," says Stam. They hold 2,731 farms valued at $1.4 billion. Many of these companies are keeping their land off the market—employing in-house or private services to manage the land for its best return. (Insurance companies also use these management firms to handle the land they have acquired for investment purposes.)

Conversely, FCS, one of the most financially stressed lenders, has tried to sell its land quickly while being sensitive to local land values. As of March 31, 1987, FCS held 8,082 farms encompassing 2.8 million acres and worth $1.1 billion, Stam says. Most of the land is held by FCS's Federal Land Banks—the longer term lenders of this banking cooperative.

At the end of 1982, FCS, as a whole, held only $122 million of land. By the end of 1985, the value of its holdings had grown to more than $900 million, even though land values declined during the period. The system has little choice but to turn over the assets as quickly as possible. "It cannot afford to hold on to massive amounts of acquired property because the cash flow from the land sales is needed by the lender to shore up its own financial situation," Stam explains.

FCS has had some success with its land sales. The lender's St. Paul District, consisting of Michigan, Minnesota, North Dakota, and Wisconsin, instituted a sales program that incorporated large down payments, lower interest rates, and intermediate-term financing. "All four states surpassed their sales goals. More than half of the district's land inventory was sold and at prices that averaged about 4 percent above the appraised value of the land," Stam says.

FmHA, the government's "lender of last resort" for many farmers, would like to sell the 1.6 million acres it now holds, but restrictions imposed by the 1985 farm bill have prevented it from doing so, says economist Steven Koenig. Under the 1985 law, borrowers in default can retain their home and a small amount of acreage for up to 5 years. FmHA land dispersals have also been hampered by court actions challenging the agency's foreclosure policies, says the analyst.

Unlike some other lenders, FmHA is not actively trying to lease the holdings—particularly cropland—it cannot sell. The reason, says Stam, is that the rent from cropland is usually not enough to cover the federal commodity program payments disbursed to the renter. Grazing land held by the lender can still be leased. □

*[Based on information provided by Jerry Stam, Steven Koenig, and Greg Gajewski, economists with the Agriculture and Rural Economy Division, Economic Research Service.]*

# Many Farms Flourish in the City's Shadow

When urban sprawl overflows into agricultural areas, not all farmers pull up stakes and retreat.

Many of today's successful farmers can be found tilling the soil in the shadow of our nation's cities.

For those who can adapt, there are potential advantages that may offset the added pressures of an urban fringe environment, says economist Ralph Heimlich, who studies land use trends for USDA's Economic Research Service.

Farmers located near population centers, for example, may have escaped some of the recent economic troubles affecting their more rural counterparts. By and large, they have not had to contend with sharply depreciating farmland values, they have greater access to better paying off-farm jobs, and they generally depend less on volatile export markets.

Farming on the fringe has its own special requirements and challenges, Heimlich acknowledges. Yet those who have succeeded at it may have developed survival skills that will become progressively more useful as urbanization spreads.

Approximately 643,000 farms, or 28.7 percent of the U.S. total, are located in metropolitan areas, the Census Bureau reported in 1982.

"Metropolitan statistical areas" are defined by the Census Bureau and include counties with one or more urbanized areas plus outlying areas highly integrated with, and dependent upon, the core.

Two hundred years ago, only 5 percent of Americans lived in what were then considered urban areas. The central cities and, to a lesser extent, the adjacent suburbs, became the focus of settlement only after World War II. After 1970, the suburbs began to grow faster than the cities. More farmland began to fall within the shadow of the city. In fact, 90 percent of what the Census Bureau calls "metropolitan" is actually suburban or rural.

### Making Room for Agriculture

The agriculture that remains in these surrounding communities constitutes one of the major uses for land in the extended metro areas. Farmers faced with city sprawl have to contend with higher property taxes, restrictive ordinances, the loss of farming-related service businesses, and other problems. But they benefit from a combination of trends that have provided the opportunity for many of them to stay put and prosper.

***Farmers near population centers may have escaped some of the recent economic troubles.***

One such trend involves new housing patterns that gobble up fewer acres. As metro areas expand, builders are putting more people on less land, Heimlich says. Smaller lots for single-family homes, townhomes, and large apartment complexes are a response to higher construction costs and buyers' preferences for less land to maintain.

Heimlich also sees other trends that favor urban-fringe farming.

"People are dissatisfied with living in anonymous suburbs," says Heimlich in describing the movement of the 1970's that saw a more affluent consumer rebelling against the perceived "sterility" of the suburbs. Many people now prefer a more integrated mix of different types of housing in a rural setting. Thus, they are willing to make room for agriculture, Heimlich says.

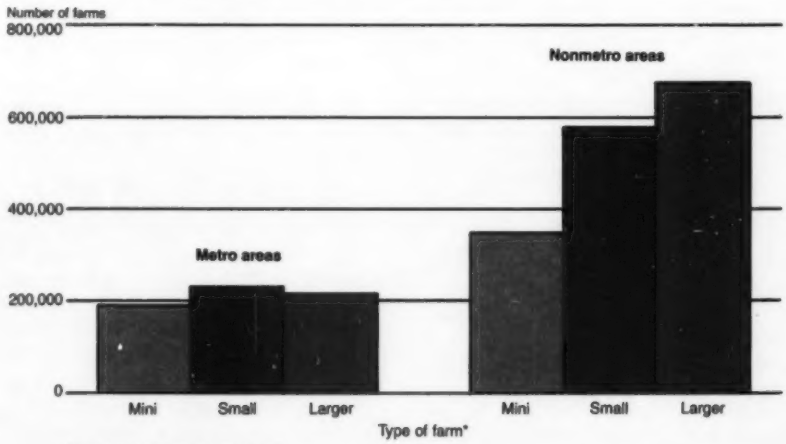
Under pressure from agricultural and urban interests, farmland retention legislation was enacted as early as 1956. All states offer preferential tax assessment for farmland, and 46 have "right-to-farm" laws.

An increasing number of states have legislated programs to purchase or transfer development rights (PDR's and TDR's) on farmland as a means of preserving agricultural land.

Under a TDR program, farmers can sell development rights in certain designated areas to developers who may then use those rights to build at a higher density than they would otherwise be allowed under existing zoning regulations. In a PDR program, state or local governments buy the development rights from farmers and hold them.

On the national level, a Farmland Protection Policy Act was passed in 1981.

**Smaller Farms Have a Larger Role in Metro Areas**




Source: 1982 Census of Agriculture.

* As defined here, mini farms have annual sales of agricultural products of less than $2,500, small farms have sales of $2,500 to $19,999, and larger farms have sales of $20,000 or more.

**Metro Farms Produce More Than Two-Thirds of U.S. Fruits, Vegetables, and Nursery Crops by Value**

| | Receipts, U.S. | Receipts, metro | Metro share |
|---|---|---|---|
| | *$ billions* | | *percent*[1] |
| All crops | 62.2 | 20.7 | 33 |
| Grains | 36.4 | 7.2 | 20 |
| Cotton | 3.2 | 1.1 | 35 |
| Tobacco | 2.8 | .7 | 24 |
| Hay and silage | 2.3 | .6 | 28 |
| Vegetables, sweet corn, and melons | 4.1 | 2.9 | 69 |
| Fruits, nuts, and berries | 5.8 | 4.0 | 68 |
| Nursery and greenhouse | 3.8 | 2.9 | 76 |
| All livestock and poultry | 69.6 | 17.8 | 26 |
| Poultry and products | 9.8 | 2.8 | 29 |
| Dairy products | 16.3 | 6.2 | 38 |
| Cattle and calves | 31.6 | 5.7 | 18 |
| Sheep, lambs, and wool | .6 | .1 | 23 |
| Hogs and pigs | 9.9 | 1.6 | 16 |

Source: 1982 Census of Agriculture.

[1]Percentages based on unrounded numbers.

**Catering to Consumer Tastes**

Another trend—call it the consumer or the health movement—has led to greater demand for fresh, wholesome, high-quality foods. Fresh fruit and vegetable consumption, for example, is on the rise, and tastes are often even more specific than that.

"Many people aren't satisfied with the modern, mass produced tomato," Heimlich says. They want more home-garden flavor or organically grown produce, and the new lifestyles demand that access to these goods be reasonable.

Urban farmers, with closer access to the markets they serve, are succeeding by adapting to and capitalizing on these trends. They're producing high-value crops or livestock that the urban consumers demand, and they're doing so on less land than nonmetro farmers, Heimlich says.

Also, metro areas account for nearly 60 percent of sales made through roadside stands and farmers' markets, Heimlich says.

In fact, the majority of horticultural products, fruits, tree nuts, vegetables, and melons are produced in metro areas. And most animal specialty operations, such as horse farms, are in those locations. In 1982, about three-fourths of nursery and greenhouse products and two-thirds of vegetables, fruits, and nuts were grown in metro counties.

Moreover, because urban farms face competing uses for the land and concentrate on high-value, intensive agriculture, their farmland values have remained high.

Farmland values decreased substantially in rural areas from 1985 to 1986, but increased by at least 6 percent in urban fringe counties, according to ERS researchers. The value of farmland on the urban fringe averaged $2,669 per acre in 1986, compared with $613 per acre for rural farmland.

While nonmetro farm numbers continued to drop, the number of metro farms increased 3.5 percent between 1978 and 1982, Heimlich says.

Another difference is that metro farmers generally sell their products to fairly predictable and steadily expanding domestic markets. "They sell fewer crops in the export market, so government commodity and income support programs play a smaller role. Their land values have remained high, so they have more equity than nonmetro farmers whose land values have fallen," Heimlich says.

Government commodity loans went to only 4 percent of metro farms in 1982, compared with 10 percent of nonmetro farms.

**Small-Scale Farming Increasing**

In the years ahead, Heimlich anticipates even greater emphasis on "value mode" agriculture, which is smaller in scale, more intensive, and tends to emphasize high-value, high-quality products rather than large-scale, uniform, homogeneous production.

Partly because they're smaller, and because there are more alternatives, metro farms may be more flexible than their larger nonmetro counterparts.

"Metro farms are often run by people who don't consider themselves to be primarily farmers," Heimlich says. They work off the farm more than nonmetro operators and perhaps farm only as a hobby.

Heimlich points out that not all farmers can adapt to intensive production or the demands of an urban market. Nor do we know whether consumers' tastes will change again in the future, perhaps to the detriment of metro farmers.

But metro farming is a healthy part of the agricultural economy, and it should continue to thrive in the city's shadow as long as farmland retention programs are targeted correctly and competitive adaptation is encouraged, Heimlich says. □

*[Based primarily on information provided by economist Ralph Heimlich of the Resources and Technology Division, Economic Research Service.]*

# Processing Costs More Than Growing Our Food

Americans continue to pay as much for processing the foods they buy at the checkout counter as they pay for producing the crops and livestock on the farm.

Analysts in USDA's Economic Research Service say that about 30 cents of every dollar spent in foodstores last year went to cover the farm value, while 31 cents paid for the processing after foods left the farm.

Another 10 cents was spent for wholesaling and 6 cents for transportation between processor and retailer. "And retailing charges added the last 23 cents," says ERS economist Denis Dunham.

The total marketing bill, then, covering the four main functions of the food industry—processing, wholesaling, transporting, and retailing—came to 70 cents of each dollar spent in foodstores.

The breakdown of dollars spent in restaurants and for other away-from-home meals and snacks was somewhat different. The farm value was covered by 16 cents, compared with 15 cents for processing. Transportation accounted for 3 cents and wholesaling 6 cents. The bulk of spending in this area was for the preparation and serving of food, Dunham notes.

Total consumer spending on food from U.S. farms came to $361 billion. Of that, $272 billion went for marketing, which includes all costs other than farm value. These are combined totals for foodstore buying as well as away-from-home food spending.

Food marketing costs for 1986 were $15 billion higher than for 1985. "This increase accounted for practically all of a 4.5-percent rise in consumer food expenditures," Dunham says. "The $272 billion paid the wages and salaries of millions of employees in the food industry, plus all the other costs of doing business."

### Labor Largest Cost

Labor is the largest food marketing cost, amounting to almost $124 billion, or 34 percent, of food expenditures last year. These costs mainly consist of wages and salaries and employee benefits such as group health insurance.

"Labor costs rose about 6 percent in 1986, due mainly to a substantial increase in the number of workers employed by the food industry," says Dunham. Total employment was up 5 percent, the largest 1-year increase in many years. It was paced by a 6-percent increase in food retailing employment, reflecting a rapid growth of service departments, such as bakeries, in supermarkets. Employment rose about 4 percent in eating places and more than 2 percent in the food manufacturing industry.

***Overall, 11 million workers were employed in processing and distributing food in 1986.***

"Overall, some 11 million workers were employed in processing and distributing food in 1986," says Dunham. Slightly more than half of them—nearly 5.9 million—worked in away-from-home eating places. Foodstores employed 2.9 million, processors 1.6 million, and wholesalers 700,000.

Dunham says the higher cost of employee benefits continued to boost food industry labor costs in 1986. One of the increasingly expensive benefits is health insurance, which has risen in response to a 138-percent increase in the cost of medical care between 1976 and 1986.

Employers, Dunham says, are trying to hold down further growth in benefit costs through changes in labor agreements requiring employees to pay a larger share of health insurance premiums and by resisting increases in employee vacation and holiday benefits.

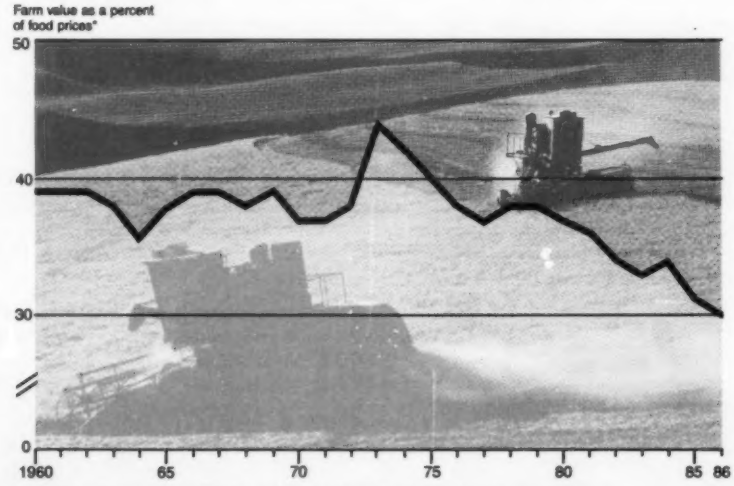
### Packaging Costs

The second largest slice of food marketing costs last year was packaging. Food containers and packaging materials accounted for $28 billion, or 7.7 percent, of total food expenditures.

"These costs rose 4 percent from 1985," says Dunham, "mainly because of higher costs for paperboard boxes and containers, glass containers, and plastic materials."

Paperboard boxes and containers are the largest packaging cost. The food industry spent about $11 billion, representing some two-fifths of total packaging expenses, on paper and paperboard products in 1986.

**The Farm Value Share of Retail Food Prices Is Down from the Levels of the 1960's and 1970's**




*Based on the farm value and retail cost of a "market basket" of food purchased in grocery stores.

Fiber (cardboard) boxes, the primary container used to ship just about all processed foods, accounted for about a third of this total.

Sanitary food containers, including those for fluid milk, margarine and butter, ice cream, and frozen food, cost almost as much. The third largest paperboard item was the folding box, used for cereals and crackers, and other dry foods.

Next in importance are metal containers, which make up about a fourth of food packaging costs. "Cans have probably become less important in packaging as more glass and plastic bottles and fiber containers are used," Dunham says.

Plastic containers and wrapping materials comprise nearly 15 percent of food packaging costs. Plastic is an important source of trays for meat and produce, bottles for milk and fruit juices, jars and tubs for cottage cheese and other dairy products, and flexible wrapping materials, such as polyethylene film, for protective covering of baked goods, meats, and produce.

**Moving Food to Markets**

Truck and rail transportation to move farm foods to market came to about 4.7 percent of consumer food costs, but that still was $17 billion in 1986. "The larger volume of food entering the market boosted transportation costs about 2 percent last year," Dunham says.

Costs were held down by nearly stable transportation rates. For example, following a 1-percent rise in 1985, railroad freight rates declined by about the same amount in 1986. Average truck rates for shipping food products probably increased very little, if any, Dunham says.

Energy costs came to $13.6 billion last year, showing only a slight rise because of the expanded size of the food industry and higher electricity rates. That's a marked change from the way energy prices grew in the 1970's.

"From the sharp rise in energy prices in 1973 until 1981, fuel and electricity costs in the food industry rose at more than 1.5 times the annual rate of other costs," Dunham says. "Rising about 20 percent a year, energy costs increased from 2 percent of retail food expenditures to 3.5 percent."

However, the growth in costs has slowed the past 4 years, particularly last year, as petroleum prices declined.

Food retailing and processing each account for about a quarter of total fuel and electricity costs in the food marketing sector. More than a third of these costs are incurred by public eating places and other food service facilities. Their share has risen rapidly as the number of fast food eateries has multiplied in the last decade. "Also, away-from-home food service has the highest energy costs per dollar of sales, averaging about 3.8 percent," Dunham says.

All of these major costs—labor, packaging, transportation, and energy—added up to about two-thirds of the 1986 food marketing bill. The remainder consisted of a variety of other costs, plus profits.

"Many other costs are incurred in performing food processing and marketing functions," says Dunham. Among them: depreciation, advertising and promotion, rent, repairs, bad debts, property taxes and insurance, and interest.

The largest of these costs are plant and equipment depreciation (4 percent of consumer food expenditures), advertising expenses (about 4 percent), and rents (about 1.5 percent).

Profits earned by firms from marketing food were estimated at about $12 billion in 1986, compared with $11 billion in 1985. "These before-tax estimates of profits comprised 3.3 percent of food spending, about the same as in recent years," Dunham says. □

[*Based on information provided by economist Denis Dunham of the Commodity Economics Division, Economic Research Service.*]

*(Related story on next page.)*

# Farm Value Share of Food Costs Still Falling

The farm value of food—as a share of the retail food dollar—continues to fall, while higher processing and marketing costs boost consumer prices.

"The farm value portion of the consumer dollar spent for food averaged 30 percent for all foods in the market basket in 1986, compared with 31 percent in 1985," says ERS economist Denis Dunham.

During the 1960's and 1970's, the farm value share generally stayed between 38 and 40 percent, but it has been on a downward trend since 1979. The reason: Farm prices, by and large, have not increased, and retail prices have continued to go up, widening the farm-to-retail price spread.

He notes that "the size of the farm value share is not a direct measure of the welfare of producers, but a decline usually indicates a period of relatively weak farm prices."

Farm value is a measure of prices farmers receive for products later used for food.

"Higher farm prices for eggs and poultry caused much of their 1986 rise at retail outlets," says Dunham. "Hog prices also went up, and retail pork prices rose. Retail beef prices declined slightly because of lower cattle prices."

"In 1986," says Dunham, "farmers received about 7.5 percent of bakery and cereal prices, and 19 percent of the retail price of processed fruits and vegetables, and fats and oils."

Consequently, declines in the farm values of these foods were not accompanied by lower retail prices. For example, even though the farm value of grain commodities used in cereals and baked goods fell nearly 20 percent, retail prices of these foods rose 2.8 percent.

Surplus stocks at the beginning of the year and large production pushed crop prices down all year.

"Although wheat production was the smallest in 8 years, supplies were still abundant, due in part to very weak exports," says Dunham. "That meant a further decline in wheat prices during the year, lowering the farm value of flour in bakery and cereal products."

According to Dunham, farmers received only 3.5 cents for the wheat flour in a 1-pound loaf of white bread, 0.6 cent less than in 1985. The farm value of other bread ingredients, mainly shortening and corn sweetener, was half a cent—0.2 cent less than in 1985.

"Corn production was the second largest on record, causing corn prices at harvest to sink below a dollar a bushel at country elevators, the lowest price since the early 1970's," Dunham says.

Soybean production stayed at a fairly high level last year, prompting the farm price of soybeans to fall by about 14 percent in the 1985/86 marketing year. Steeper declines came in the prices of soybean oil, the main oil used in food shortening and margarine, resulting in a 27-percent drop in the farm value of fats and oils products in the market basket.

For most animal food products, farm value increased in 1986. Producers received 3.3 percent more overall for beef and pork, but that was mainly because of a rise in hog prices. Pork and beef account for about half of the total farm value of the market basket.

"Pork production declined 5 percent as producers continued to trim inventories," Dunham says. "The cutback in output pulled up prices of barrows and gilts by 14 percent to an average of about $51 per hundredweight."

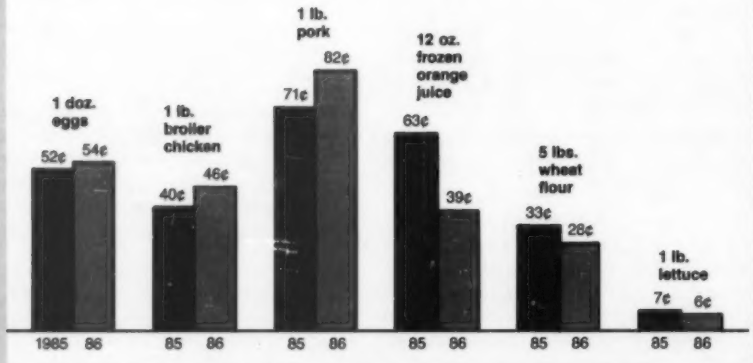
He adds that beef production grew about 3 percent in 1986, largely because of an increase in dairy cow slaughter. The farm value of beef declined slightly.

Poultry producers saw the farm value of their products go up in 1986, despite a 6-percent boost in output. Producers received 46 cents of the average retail price of 84 cents per pound of broiler chicken. This was about 6 cents more than in 1985.

Egg producers received 54 cents out of the average retail selling price of 87 cents per dozen. This was 2 cents more than in 1985.

The situation for milk producers was somewhat different. The average price paid to them declined 2 to 3 percent in 1986 to the lowest level since 1979. A half-gallon of fluid whole milk that cost an average of $1.11 at retail in 1986 returned 54 cents to the producer, 2 cents less than in 1985.

**Farmers Received More for Animal Products in 1986 Than in 1985, but Less for Other Commodities**



# Olive Oil Stockpiles Illustrate Europe's Farm Dilemma

To the mountains of grain and butter that represent the European Community's growing problem of agricultural stockpiles, add another commodity—olive oil.

This "slippery dilemma," as economist Miles Lambert calls it, was partly inherited by the EC during recent expansions. Lambert, a specialist on European agriculture with USDA's Economic Research Service, says the olive oil situation helps illustrate the difficulties faced by the EC in trying to solve its farm surplus problems.

Like the United States, it must reckon with competing interests, which may seem to pit farmers against consumers or the general taxpaying public, producers of crops against those who raise livestock, and various farm production regions against one another. In the EC, another complication is the number of separate nations involved, now twelve.

The addition of three new members (Greece in 1981, and Spain and Portugal last year) has enlarged the EC's agricultural sector and taken the goal of Euro-unity one step further. However, these three southern-tier European nations, along with Italy, have agricultural interests that often conflict with those of their more northerly neighbors.

The case of olive oil may provide the best example of this conflict, Lambert maintains. To begin with, four-fifths of the world's production now takes place in the EC.

The major producers of olive oil are Italy, Spain, and Greece, trailed by Portugal. (Southern France produces an insignificant amount.) Total output by these countries was 1.2 million tons in 1984/85, 1.4 million in 1985/86, and an estimated 1.1 million this year.

Of course, it has only been recently that all this production came under the EC's Common Agricultural Policy. But it is already apparent that a regional pattern has emerged.

In the EC-12 area in 1985/86, almost 98 percent of the 1.3 million tons of olive oil consumed was in the four southern countries. Among the eight northern nations, olive oil accounted for only 1 percent of all edible oil consumed as food.

***The southern-tier European nations have agricultural interests that often conflict with those of their northern neighbors.***

"The price premium for olive oil favors competing oils," says Lambert, "even in southern country markets. Only 48 percent of all edible oils consumed in those four countries in 1985/86 was olive oil."

In recent years, production and consumption have been in a rough balance, but stagnant demand for olive oil has frustrated the goal of significantly drawing down surplus stocks. These stocks were accumulated mostly by Greece and Spain before they entered the EC. Their national policies, motivated partly by social and political concerns, encouraged olive cultivation.

Little progress in drawing down stocks is made even when production is down, as it is this year.

"A cold winter in southern Italy, together with an off year in the biennial olive-bearing pattern there and in Greece will lower the EC's olive oil production by about one-fifth in 1986/87 compared to the previous year," says Lambert.

"Nevertheless," notes Lambert, "EC olive oil stocks will decline by only somewhat more than one-tenth, and at nearly 600,000 tons will represent a little more than one-half of average annual output. The apparent impossibility of a significant dwindling of stocks even this year underscores EC concerns about its olive oil sector."

Moreover, the EC's costs to support olive oil stocks have tripled in the years since the EC-9 began expanding, and now account for about 5 percent of EC expenditures in support of farm commodities.

According to Lambert, the EC has few options in its olive oil dilemma.

"On the one hand, measures to curtail production are virtually out of the question," he says. Olive oil is a major contributor to farm income in the mostly rural and usually overpopulated, disadvantaged regions where it is produced.

Also, he says, olive oil is highly visible as a "bellwether" commodity, as viewed from the perspective of reorienting EC farm policy away from its traditionally lopsided support for typically northern farm products, now that southern membership has gained substantially.

On the other hand, he says, reduction of olive oil stocks through increased consumption in the northern EC countries and increased exports to non-EC markets would generally require subsidies at levels considered prohibitive.

All these conflicts have some relevance to the United States.

Spain and Portugal both require that when oil produced from imported soybeans rises above a certain domestic market quota, the soybean oil must be re-exported in order to avoid competition with olive oil. For U.S. soybean producers, the implications seem fairly obvious—fewer sales to Spain and Portugal now that these nations are EC members.

One potential remedy, debated earlier this year by EC officials before being dropped from consideration, was a tax on fats and oils. The tax was touted as a means of enhancing olive oil sales by raising the relative prices of other fats and oils.

At the same time the merits of the tax proposal were being examined, however, a related EC initiative emerged, and it may jeopardize the prospects for a reduction in surplus olive oil stocks. It involves reducing the EC grain surplus through larger production of oil-bearing crops. Under such a policy, "olive oil producers could eventually face even greater competition on their domestic markets than they do today," says Lambert. □

*[Based primarily on information provided by economist Miles Lambert of the Agriculture and Trade Analysis Division, Economic Research Service.]*

## Farm Numbers Decline Slightly

The number of farms in the United States dropped by 38,510 during the last year, according to preliminary 1987 estimates of USDA's National Agricultural Statistics Service.

The decline reduced the farm count to 2.17 million units, down from 2.21 million last year and 2.43 million in 1980.

Farm numbers peaked at 6.8 million in 1935 and have been falling ever since. The downward trend was briefly interrupted by two small increases in 1980 and 1981, encouraging some short-lived speculation that farm numbers were finally leveling off.

Although the farm financial crisis may have contributed to subsequent declines, most analysts see a continued slippage in farm numbers well into the foreseeable future. The trend, they contend, is more a factor of the long-term structural changes in agriculture than any ups and downs in the farm economy.

Whatever factors the figures reflect, the latest estimates took a more moderate turn. The 1.7-percent decline from 1986 to 1987 was the smallest since 1983, and it followed 3 straight years of steadily increasing rates of decline.

Within the farm count, the percentage of small farms (those with annual sales of less than $10,000) increased from 52 to 53 percent of the total. The proportion of farms with sales of $10,000-$39,999 decreased in 1987, while farms with sales of $40,000-$99,999 remained stable. Those with sales of $100,000 or more slipped from 13.8 to 13.6 percent of total U.S. farm numbers.

A quick review of the statistics also revealed how various states fared in the 1987 farm count:

- Farm numbers increased in two states (Colorado and Vermont),

dropped in 33 states, and held steady in 15. Arizona registered its first decline in farm numbers of this decade.

- The two largest numerical declines were recorded by two Midwestern states. Indiana had an estimated 5,000 fewer farms in June 1987 than it did in June 1986, and Ohio had 4,000 fewer farms.

- States that have experienced particularly large numerical declines in farm numbers since 1980 include North Carolina, which lost 21,000 farms in the last 7 years; Illinois, down 23,000; and Texas (the state with the largest number of farms), down 29,000.

- Five Southern states—Mississippi, Alabama, Georgia, and the Carolinas—experienced a combined 20-percent drop in farm numbers between 1980 and 1987, about double the national rate of decline over the same period.

The latest numbers also included information on U.S. farm acreage and farm size. The data showed a 1-percent drop in the total amount of land in farms (to just over 1 billion acres), and another increase in farm size. The average American farm now covers 461 acres, up from 456 acres last year and 427 in 1980.

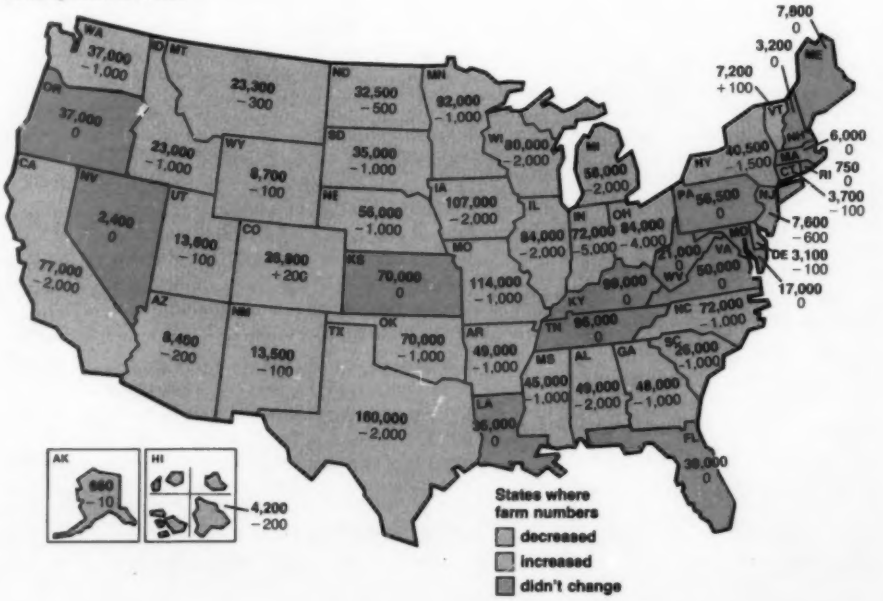
**The Long-Term Downward Trend Continues**

| | Number of farms | Percent change[1] |
|---|---|---|
| 1940 | 6,349,800 | −1.4% |
| 1950 | 5,647,800 | −1.3% |
| 1960 | 3,962,520 | −3.5% |
| 1970 | 2,949,140 | −1.7% |
| 1980 | 2,432,510 | +0.01% |
| 1981 | 2,433,920 | +0.1% |
| 1982 | 2,400,550 | −1.4% |
| 1983 | 2,370,200 | −1.3% |
| 1984 | 2,328,400 | −1.8% |
| 1985 | 2,274,730 | −2.3% |
| 1986 | 2,211,920 | −2.8% |
| 1987[2] | 2,173,410 | −1.7% |

Source: National Agricultural Statistics Service.
[1]Percentage change from previous year. [2]Estimate.

**Farm Numbers Decline in 33 States, Increase in 2, and Show No Change in 15 States**

Estimated number of farms as of June 1, 1987, and change from June 1, 1986:



# REPORTS IN THE NEWS

## Survey Shows Less Red Ink

Speculation that the worst of the farm crisis may have passed is supported by recent data in USDA's latest financial profile of the sector.

The profile cites 1986 income estimates and an abundance of data on operator returns, debts, and assets from the 1986 Farm Costs and Returns Survey.

Analysts report that many of the statistical measures of financial conditions showed no further deterioration last year. For example, nearly 39 percent of all farmers entered 1987 free of debt, and another 39 percent had debts amounting to less than 40 percent of the value of their assets. These figures were unchanged from the year before, a sign of stability.

Other data took a more positive turn. The evidence, analysts say, indicated an improved ability on the part of farmers to cover all debt and to meet individual debt payments as notes became due. Meanwhile, profitability was bolstered as 1986 net farm income climbed to a record $38 billion, up from $32 billion in 1985. The increase reflected lower production costs and higher government payments.

Improvements in solvency, liquidity, and profitability led to a modest drop in the number of farms classified as highly "vulnerable." The 1986 data put 151,000 farms in this precarious financial position, a slight decline from 1985's 155,000.

The assessment also points to a possible 1987 increase in owner equity (net worth), reversing the downward trend of the last several years.

While recognizing that asset values declined again last year and that not all farmers are doing better, the assessment labels the improvements as a "signal that the farm economy may be recovering" from the severe stress that began in the early 1980's.

***Financial Characteristics of U.S. Farms, Jan. 1, 1987*** *by Johnson, Morehart, Nielsen, Banker, and Ryan. (Published August 1987; 127 pages of data tables and text; GPO Stock No. 001-019-00538-6; $6.00.)*

## Oats Industry Gains Stability

Until the early 1970's, when the Soviet Union moved into the number one spot, the United States led the world in oats production. Today, U.S. farmers still produce about 16 percent of the global harvest, but that's down from about 35 percent in the early 1950's.

Over the last three decades, U.S. output has dropped by two-thirds as farm production practices changed and as other grains became more profitable. The decline may have run its course, though. Economists note that oats are in demand for new food products, and as the basic feed for the nation's growing population of riding and racing horses.

This report on the U.S. oats industry begins with the biology and history of oats. It then proceeds with chapters on supply, demand, the marketing system, pricing, costs, policy and programs, and world supply and demand. Here are a few oats facts gleaned from a quick review of the contents:

- Less than 3 percent of the farms producing oats for grain used irrigation in 1982. Much less fertilizer and lime are used per acre on oats than on corn or wheat.
- Over the last few years, the U.S. shift from a net exporter of oats to a net importer has been good news for Sweden, Canada, and Finland, our major suppliers. However, lower U.S. loan rates, the use of generic certificates, and the decline in the value of the U.S. dollar may trim imports.
- Starting with 1982 market prices and adjusting backward and forward for annual inflation, "real" farm prices for oats fell an average of 3.3¢ per bushel per year between 1950 and 1985. Yet declines were even greater for the major grains, with real prices dropping an average 7.5¢ per bushel per year for corn and 12.7¢ for wheat.

***The U.S. Oats Industry*** *by Linwood Hoffman and Janet Livezey. (Published July 1987; 106 pages of text and data tables; GPO Stock No. 001-019-00526-2; $5.00.)*

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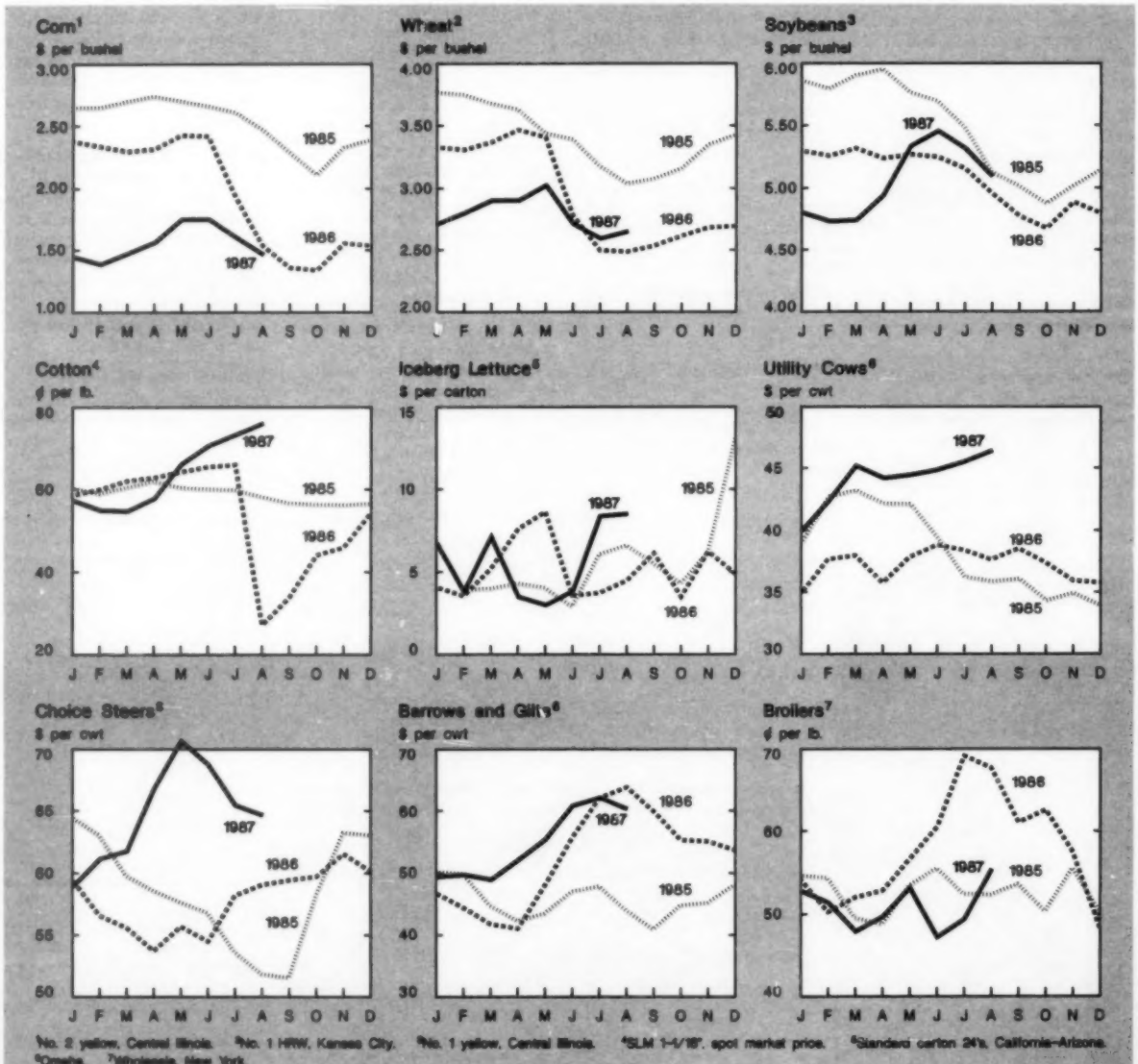
# FARMLINE TRENDS

## Monthly Price Monitor

USDA's August index of farm prices fell 2.3% from July, dropping back to its year-earlier level. Corn was down 14¢ to $1.46 per bushel, while wheat rallied to $2.65. Soybeans dropped to $5.09 per bushel.

Cotton climbed to 75.9¢ per lb., its highest since May 1984 and almost triple its year-earlier level. Iceberg lettuce remained above $8 per carton. Among meat animals, utility cows edged up to another high—$46.37 per cwt, almost $9 above their year-ago level. Choice steers slumped to $64.58, and barrows and gilts dropped to $60.16 per cwt. Broilers jumped to 55.3¢ per lb., the highest price since last November. All prices shown are monthly averages.




[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York.

# The 1987 Harvest Outlook

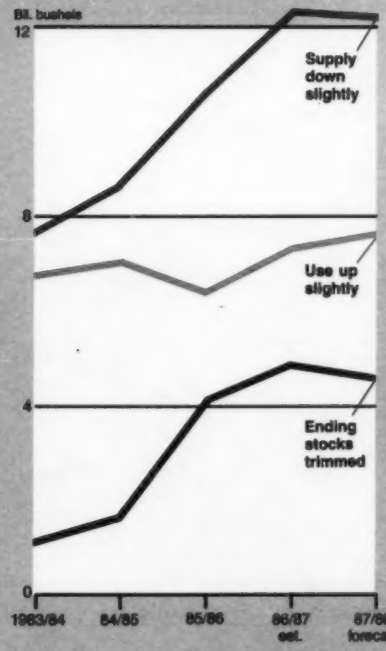
**Reduced Plantings Vie with High Yields,[1] Cutting this Year's Prospective Corn Harvest, Slightly Boosting Wheat Output, and Producing Expectations for a Marginally Smaller Soybean Crop**

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 proj. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Planted acreage** | | | | | millions of acres | | | | | | |
| Corn | 84.3 | 81.7 | 81.4 | 64.0 | 84.1 | 81.9 | 60.2 | 80.5 | 83.4 | 76.7 | 66.0 |
| Wheat | 75.4 | 66.0 | 71.4 | 80.8 | 88.3 | 86.2 | 76.4 | 79.2 | 75.6 | 72.0 | 65.2 |
| Soybeans | 59.0 | 64.7 | 71.4 | 69.9 | 67.5 | 70.9 | 63.8 | 67.8 | 63.1 | 61.5 | 58.7 |
| **Yield** | | | | | bushels per acre | | | | | | |
| Corn | 90.8 | 101.0 | 109.5 | 91.0 | 108.9 | 113.2 | 81.1 | 106.7 | 118.0 | 119.3 | 119.9 |
| Wheat | 30.7 | 31.4 | 34.2 | 33.5 | 34.5 | 35.5 | 39.4 | 38.8 | 37.5 | 34.4 | 38.2 |
| Soybeans | 30.6 | 29.4 | 32.1 | 26.5 | 30.1 | 31.5 | 26.2 | 28.1 | 34.1 | 33.8 | 34.0 |
| **Production** | | | | | billions of bushels | | | | | | |
| Corn | 6.51 | 7.27 | 7.93 | 6.64 | 8.12 | 8.24 | 4.17 | 7.67 | 8.88 | 8.25 | 7.14 |
| Wheat | 2.05 | 1.78 | 2.13 | 2.38 | 2.79 | 2.76 | 2.42 | 2.59 | 2.43 | 2.09 | 2.11 |
| Soybeans | 1.77 | 1.87 | 2.26 | 1.80 | 1.99 | 2.19 | 1.64 | 1.86 | 2.10 | 2.01 | 1.96 |

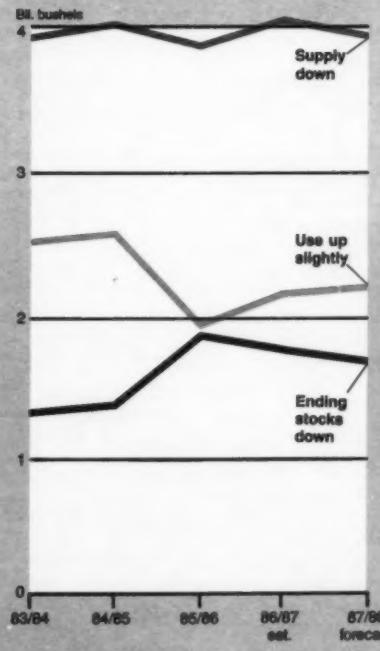
[1] Record yields are projected for corn.

**Marketing Year Outlook: No Significant Relief from Large Supplies in 1987/88, But Grain Stocks Finally Seem To Be Moving in the Right Direction**

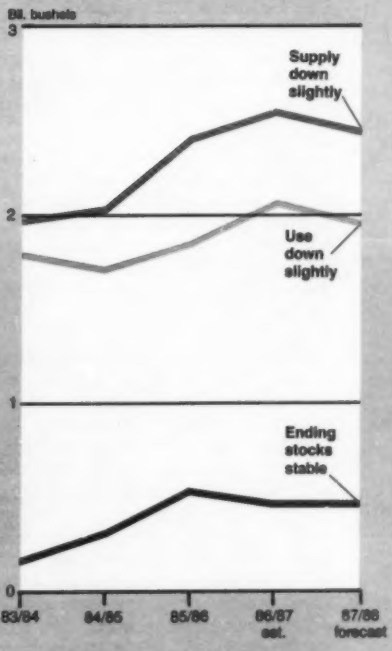
**Corn Supply-Demand Prospects***




**Wheat Supply-Demand Prospects***




**Soybean Supply-Demand Prospects***




*Based on USDA's mid-September supply-demand estimates. Supply includes beginning stocks, current year's production, and imports, if any. Use includes domestic use and exports.

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